A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

OCTOBER, 1986

SUMMARY

New composite indexes for the Group of Seven (G-7) countries have been compiled (see page 4). The G-7 economic performance index reveals a slowing growth rate, but the G-7 leading index gives a more optimistic reading. Continuing expansion, perhaps at an accelerating rate, is the message.

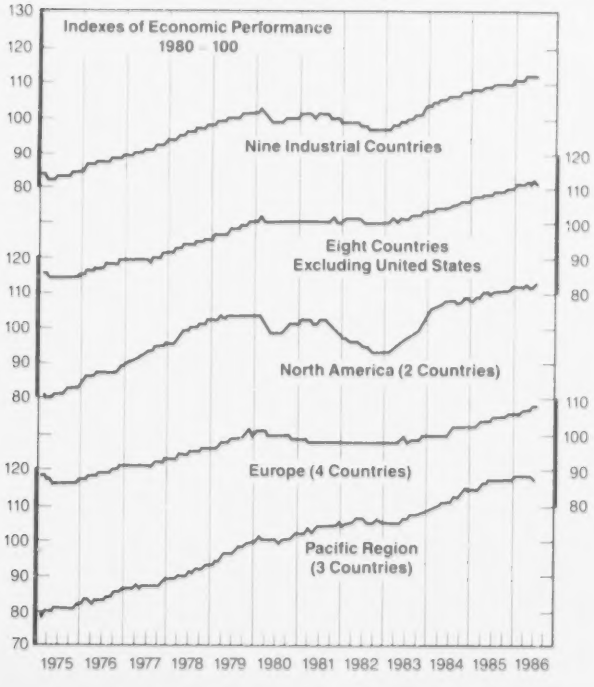
Every one of the seven countries is contributing to this positive picture, though in varying degrees. The leading indexes for three of the seven—Japan, Italy and France—are now registering rapid growth, namely 8 to 9 percent. For Japan this is a sharp reversal of the recent trend. The other four countries in the Group of Seven—the U.S., the U.K., Canada and West Germany—exhibit only slow to moderate growth in their leading indexes, in the range of 1 to 4 percent.

The two countries included in the *Scoreboard* that are outside the Group of Seven show dramatically different patterns. In Australia, the weakness in the leading index that has persisted for about a year seems now to have penetrated to the performance index, which dropped sharply in July. The shining example among all nine countries covered by the *Scoreboard* is Taiwan, R.O.C., with double-digit growth rates in both the leading and performance indexes.

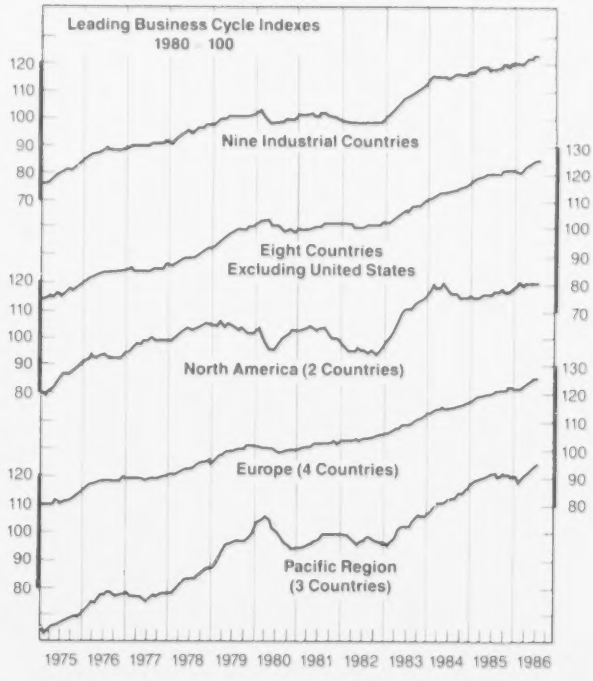
	Ten-year Growth Rate 1969-79	Indexes of Economic Performance Growth Rates* 6 mos. ago	3 mos. ago	Latest month	Leading Business Cycle Indexes Growth Rates* 6 mos. ago	3 mos. ago	Latest month	Current Reading on the Cycle	Latest Month Covered
	annual rates, percent								
9 countries	4	4	4	2	3	4	5	Expansion continuing	July
8 countries ex. U.S.	4	3	3	1	2	4	5	Expansion continuing	July
North America (2)	3	4	4	2	4	4	3	Expansion continuing	July
Europe (4)	3	4	4	3	3	6	5	Expansion continuing	July
Pacific Region (3)	5	3	2	–1	1	1	7	Expansion stalling, leaders strong	July
United States	3	3	2	2	5	2	2	Expansion continuing	Aug.
Canada	4	5	4	1	4	4	2	Expansion continuing	July
West Germany	3	5	7	6	3	5	4	Expansion continuing	July
France	4	5	4	4	2	8	9	Expansion continuing, leaders strong	July/Aug.
United Kingdom	2	2	2	1	1	0	1	Expansion continuing, leaders weak	July
Italy	3	2	1	4	9	13	8	Expansion continuing, leaders strong	May/July
Japan	5	2	2	–1	0	2	8	Expansion stalling, leaders strong	July
Australia	4	9	5	–2	0	–6	–4	Expansion stalling, leaders weak	July
Taiwan, R.O.C.	10	8	8	10	12	13	14	Expansion continuing, leaders strong	Aug.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

Where We Are


Indexes of Economic Performance
1980 = 100
Nine Industrial Countries
Eight Countries Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986

Where We're Headed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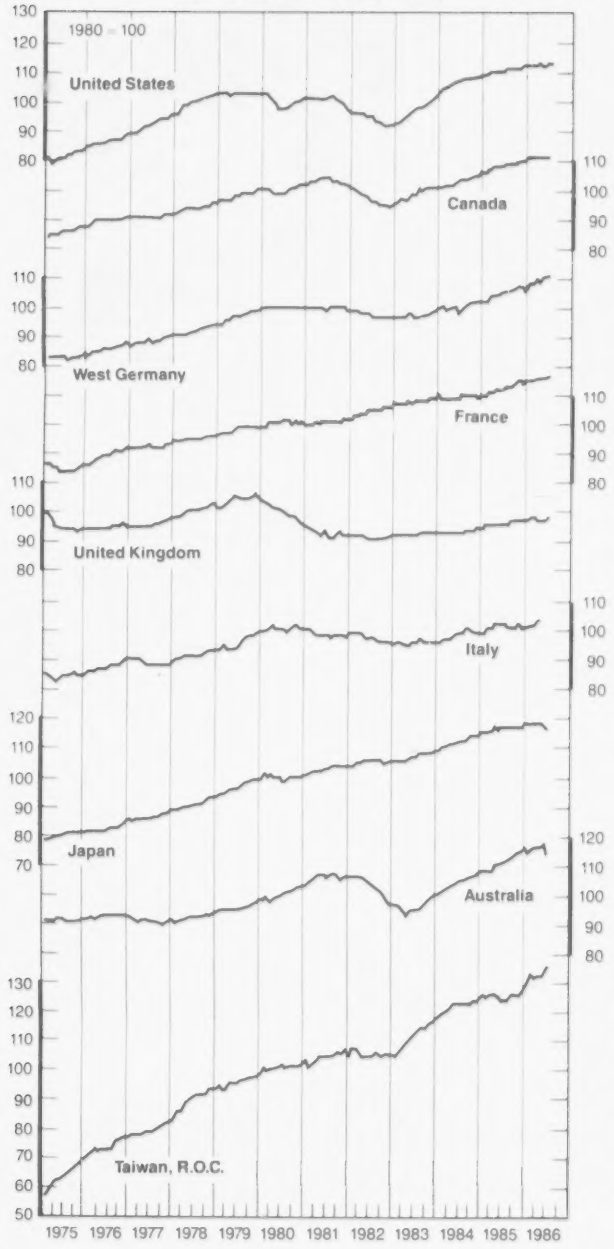
70th Anniversary

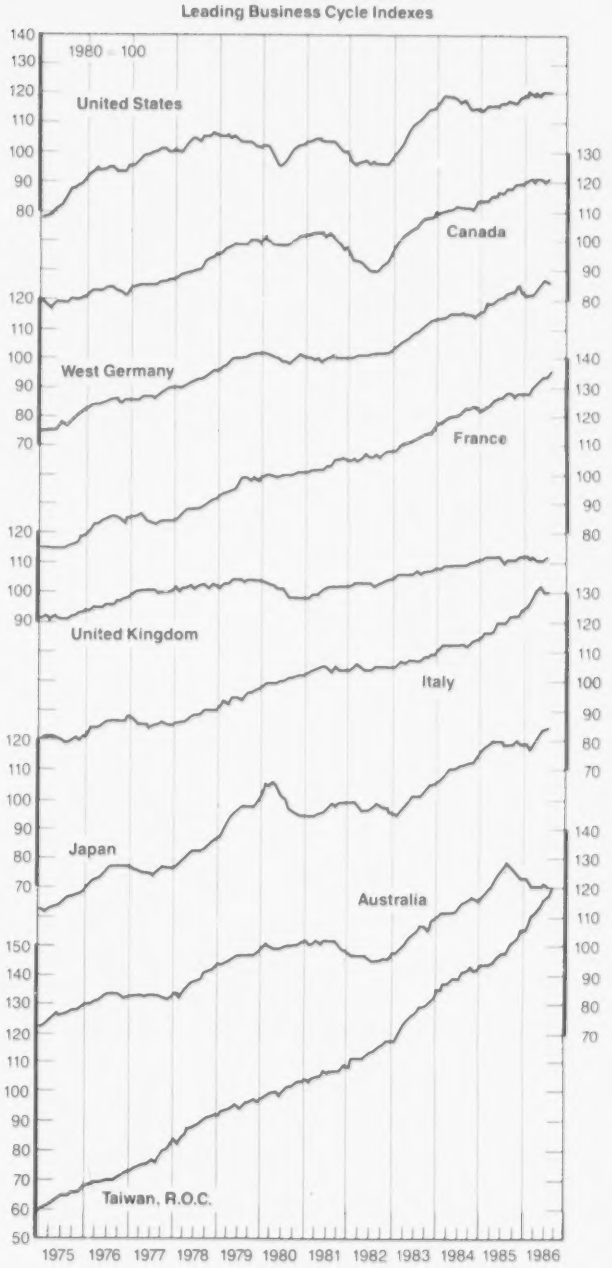
Where We Are

Indexes of Economic Performance



Where We're Headed

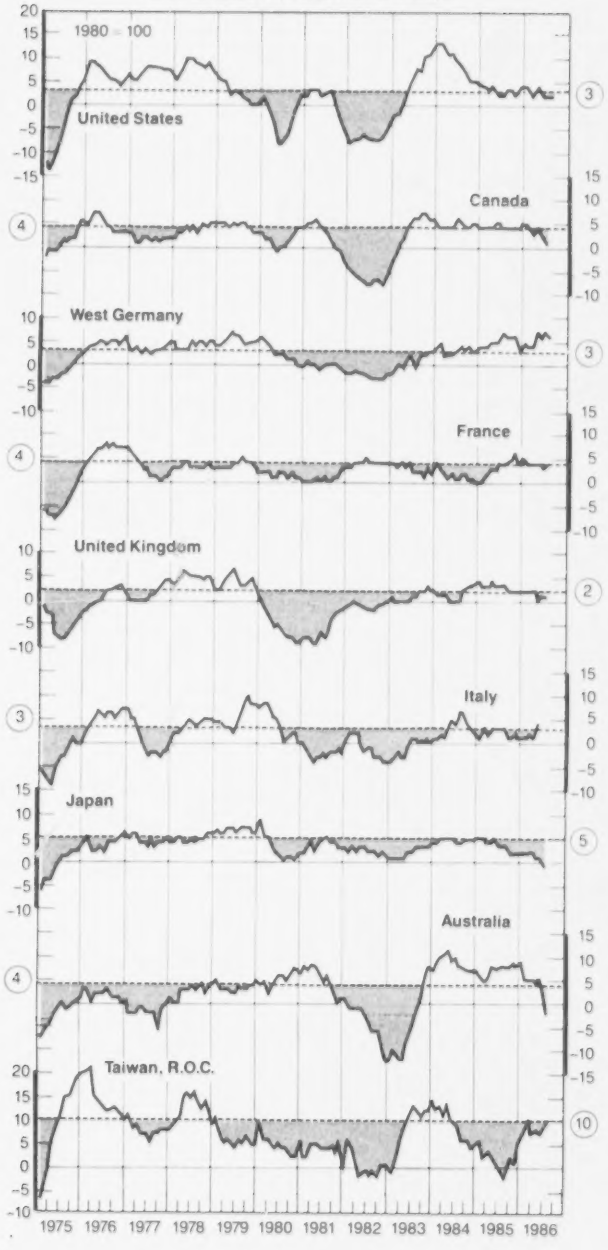
Leading Business Cycle Indexes



Sources: CIBCR and The Conference Board

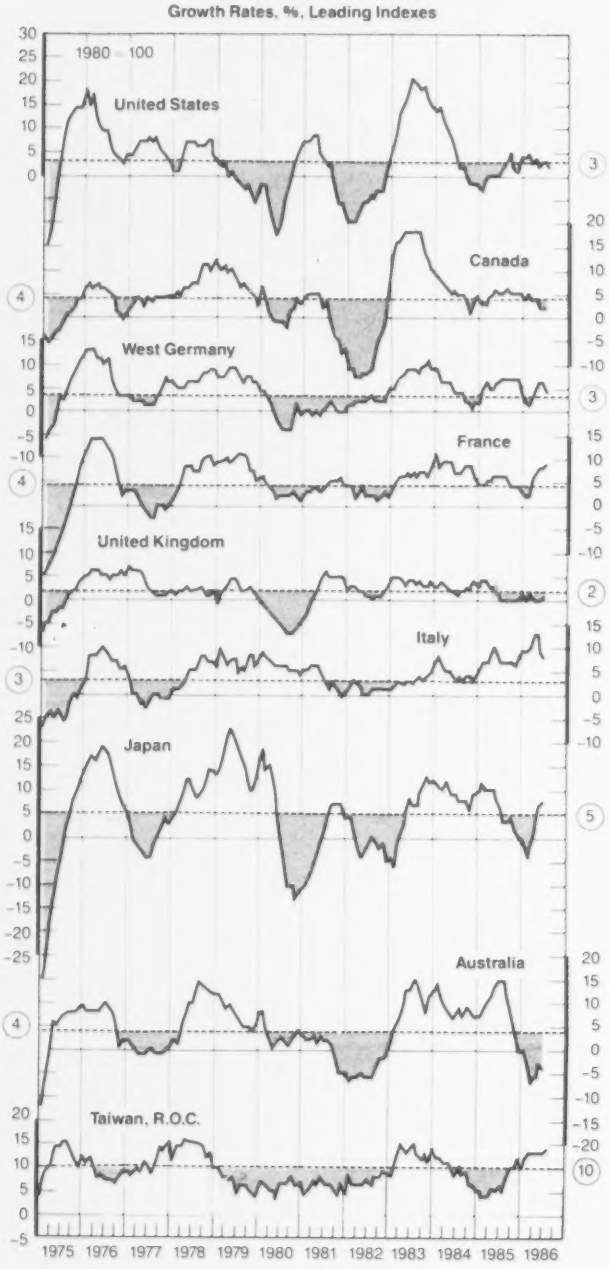
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note Horizontal dashed lines are average rates for 1969-79 in the index and in Real GNP.

Sources: CIBCR and The Conference Board

A LEADING INDEX FOR THE GROUP OF SEVEN

At the economic summit meeting in Tokyo last May, the world's seven major industrial countries—known as the Group of Seven or G-7—agreed on "close and continuous coordination of policies." While implementation of that decision has proved to be an extremely difficult task for policymakers, it is worth asking how the combined economies of the seven countries have been performing and, more important, what appears to be in store for them.

We have, therefore, put together leading and performance indexes for the G-7 countries as a group—indexes comparable to those we publish regularly for nine countries. The performance index measures how well the seven are doing in terms of production, employment, unemployment, income and trade. The leading index tells whether their performance is about to get better or worse.

Each country's weight in the index is based upon its 1980 gross national product, measured in dollars. This gives the U.S. the heaviest weight, with Japan and West Germany next. As percentages of total G-7 GNP, the countries line up as follows: U.S., 42%; Japan, 18%; West Germany, 12%; France, 10%; United Kingdom, 8%; Italy, 6%; and Canada, 4%.

The indexes and their growth rates have been computed back to 1955, as shown on the accompanying chart. Over the years, the G-7 performance index shows the usual ups and downs of the business cycle, but the long-run trend is up—at a 3.3% rate from 1969 to 1979. On six occasions since 1955, the growth rate of the economic performance index has turned negative. These periods of cyclical weakness, however, have been brief. Negative growth was recorded for a total of 52 months out of the 365 months covered, or about one year for every seven. Thus expansion has prevailed, on average, six years out of seven. The longest recession was in 1981-83, lasting 17 months. The longest expansion lasted 12 years, from 1958 to 1970.

Can the leading index help us tell when another recessionary period is coming? A way to do this is to watch for a signal, which we define as occurring when the leading-index growth rate first turns negative. The record shows eight such signals since 1956. The dates when the signals went "on" and when they went "off" (i.e., when the leading-index growth rate became positive again) are shown in the accompanying table. The table also records what happened to the economic performance index between these dates.

We find that when the recession signals were "on" the performance index either declined or grew very little. In other words, when the leading index growth rate turned negative, the G-7 countries (as a group) were either going into recession or headed for a period of slow growth. Alternatively, when the leading index signals were "off," the G-7 performance index rose vigorously —except on one occasion, in 1981, when it held steady for about a year. When the leading index signaled recession, the average rate of change in the performance index was -1.6% per year. When the leading index signaled expansion, the average growth rate in the performance index was 5.2 percent.

What is the leading index for the Group of Seven saying now? For every month since November 1982 it has been saying "expansion," and the performance index has dutifully obeyed, with a growth rate averaging 3.9% over the 44 months to July 1986. The latest growth rate in the economic performance index is 1.7% in July, which is below the trend level of 3.3 percent. The latest growth rate for the leading index, at 4.7% in July 1986, is well above the recession signal level (zero) and also well above the trend level. Hence it may be signaling a more vigorous expansion ahead for the Group of Seven.

EARLY WARNING SIGNALS FROM THE GROUP-OF-SEVEN LEADING INDEX: THEIR RELATION TO ECONOMIC PERFORMANCE

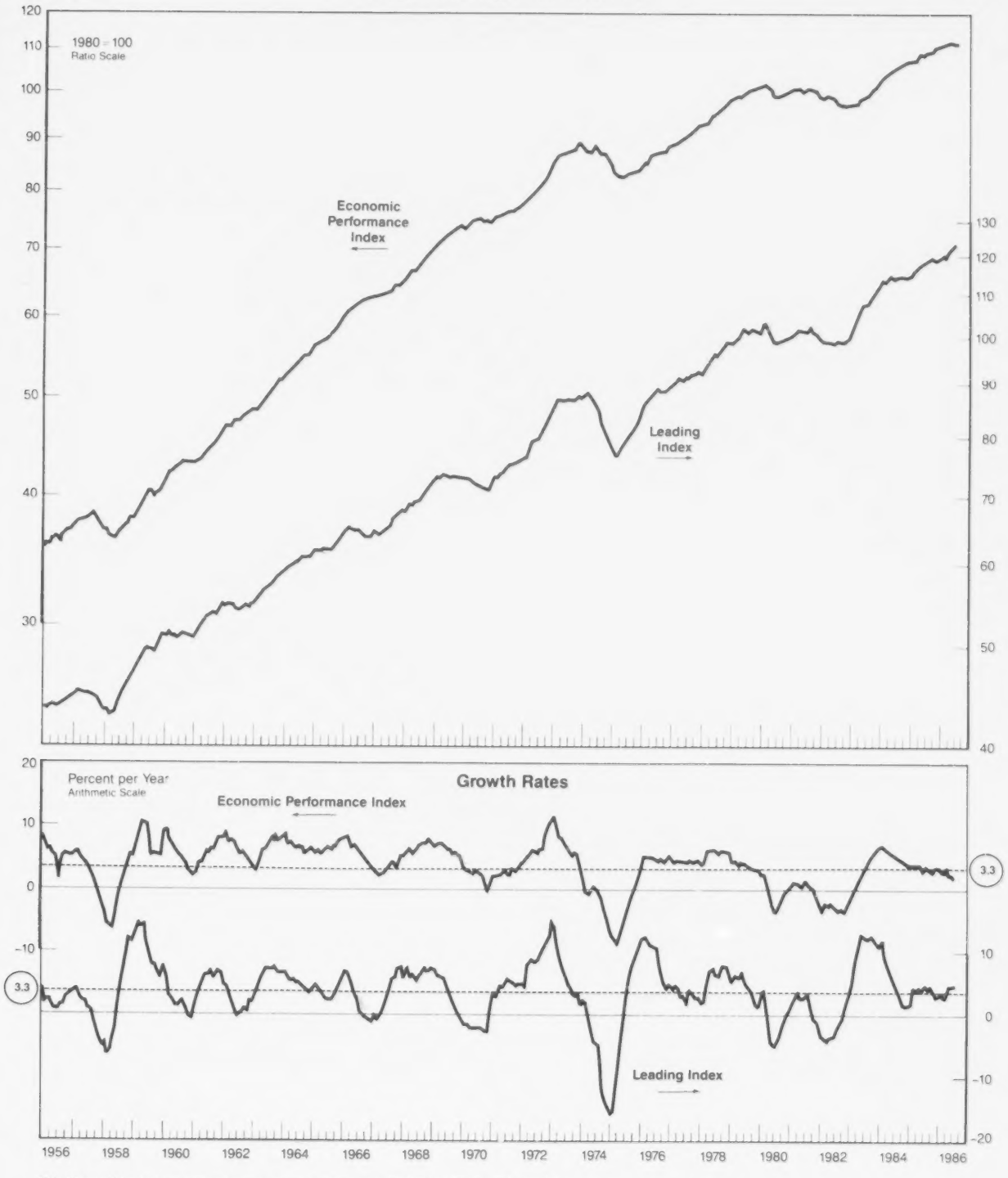
Leading Index Signal Dates[a]		*Interval between Signal Dates*		*Economic Performance Index at Signal Dates*		*Percent Change in Performance Index between Signal Dates*		*Annual Growth Rate between Signal Dates*	
Peak(P)	Trough(T)	T to P	P to T	P	T	T to P	P to T	T to P	P to T
		(months)		(1980 = 100)		(percent)		(percent)	
Sep. 1957				38.1					
	June 1958		9		36.7		-3.7		-4.9
Nov. 1960		29		42.9		16.9		6.7	
	Jan. 1961		2		43.0		0.2		1.4
June 1962		17		47.6		10.7		7.4	
	Aug. 1962		2		48.0		0.8		5.1
Sept. 1966		49		62.1		29.4		6.5	
	Apr. 1967		7		62.9		1.3		2.2
Dec. 1969		32		73.9		17.5		6.2	
	Dec. 1970		12		74.8		1.2		1.2
Apr. 1974		40		87.5		17.0		4.8	
	July 1975		15		82.6		-5.6		-4.5
Apr. 1980		57		100.2		21.3		4.2	
	Dec. 1980		8		100.3		0.1		0.1
Oct. 1981		10		100.0		-0.3		-0.4	
	Nov. 1982		13		96.9		-3.1		-2.9
July 1986[b]		44		111.6		15.2		3.9	
Total or Average		278	68			220.7	-8.6	5.2	-1.6

[a] Based on the six-month smoothed growth rate in the leading index. Peak is the first month when the rate becomes negative. Trough is the first month when the rate becomes positive.

[b] Latest date, not a peak signal. The growth rate for July 1986 was 4.7%.

Economic Indexes

Group of Seven Major Industrial Countries



Note: Horizontal dashed lines represent average annual growth rates in real GNP and the indexes for 1969-79.

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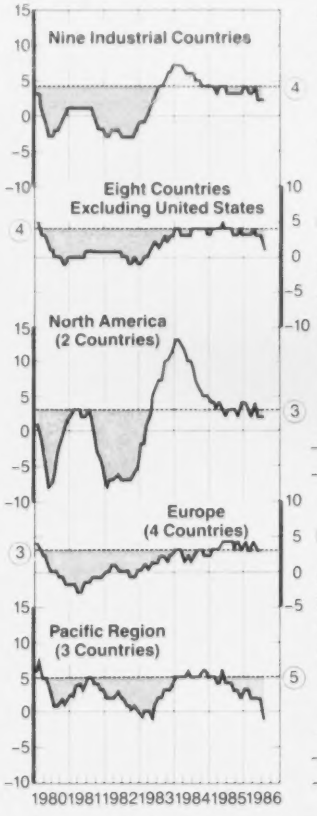
INDEXES, NINE COUNTRIES, 1985-86

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
July	85	110	117	108	117	106	121	113	127	96	110	102	120	117	119	112	127	125	148
Aug.	85	111	117	109	118	106	122	113	128	96	111	101	120	117	118	112	128	124	148
Sept.	85	111	118	109	118	106	123	113	128	97	111	101	121	117	118	113	126	124	151
Oct.	85	110	117	109	119	107	123	114	127	97	111	101	122	117	119	114	125	126	152
Nov.	85	111	117	110	119	107	124	115	128	97	111	102	122	117	119	115	124	126	153
Dec.	85	112	118	110	119	106	123	114	128	97	112	101	124	117	118	115	123	127	156
Jan.	86	112	119	111	120	108	122	115	128	97	112	101	125	118	118	116	123	130	156
Feb.	86	112	120	111	121	108	122	115	128	98	111	102	126	118	116	115	122	132	158
Mar.	86	112	119	111	120	108	123	115	130	98	112	102	128	118	117	116	120	133	161
Apr.	86	113	120	111	121	110	125	116	132	98	111	102	130	118	119	116	120	132	162
May	86	112	119	111	121	109	126	116	133	97	111	104	132	118	121	116	120	133	164
June	86	112	120	111	120	111	127	116	134	97	111		130	118	123	118	121	133	165
July	86	113	120	111	121	111	126	117	134	98	112		130	116	124	114	120	135	167
Aug.	86	113	120						136									136	170
		Growth Rates, Percent																	
July	85	2	2	4	5	7	7	4	6	3	0	3	7	4	6	8	15	-1	6
Aug.	85	3	3	4	6	6	7	4	6	3	0	1	7	4	3	8	15	-2	5
Sept.	85	3	5	4	5	6	7	4	5	2	0	1	7	3	3	8	11	-1	8
Oct.	85	2	2	4	5	6	7	5	4	2	0	1	7	2	4	8	7	2	10
Nov.	85	3	1	4	5	5	7	6	4	2	0	2	6	2	2	9	3	1	10
Dec.	85	4	4	5	5	3	4	4	3	2	1	1	8	2	0	8	0	2	12
Jan.	86	4	4	5	4	5	3	5	2	2	1	1	9	2	0	9	0	7	10
Feb.	86	3	5	4	5	4	1	4	2	2	0	1	9	2	-4	5	-2	8	12
Mar.	86	2	3	3	4	4	3	4	5	2	2	2	10	2	-2	5	-7	10	13
Apr.	86	4	4	4	4	7	5	4	7	2	0	1	13	2	2	5	-6	7	13
May	86	2	2	3	3	5	6	4	8	0	0	4	13	1	5	4	-6	8	13
June	86	2	3	2	2	7	6	3	8	1	0		9	1	7	5	-3	7	13
July	86	2	3	1	2	6	4	4	8	1	1		8	-1	8	-2	-4	9	13
Aug.	86	2	2						9									10	14
		Ten Year Annual Growth Rate, Percent																	
1969-79		3	3	4	4	3	3	4	4	3	3	2	2	5	5	4	4	10	10

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
July	85	109	119	109	120	110	117	105	120	117	121
Aug.	85	110	119	109	120	110	117	105	121	117	120
Sept.	85	110	120	109	121	110	118	105	121	117	120
Oct.	85	110	120	110	121	110	117	105	121	117	121
Nov.	85	110	119	110	121	111	117	106	122	117	120
Dec.	85	111	120	110	121	112	118	106	122	117	120
Jan.	86	111	120	110	121	112	119	106	122	118	120
Feb.	86	111	120	111	120	112	120	106	122	118	118
Mar.	86	111	120	111	122	112	119	107	123	118	119
Apr.	86	112	122	112	123	113	120	107	124	118	121
May	86	112	122	111	124	112	120	107	125	118	122
June	86	112	123	112	125	112	120	108	126	118	124
July	86	112	123	111	125	113	120	108	126	117	125
		Growth Rates, Percent									
July	85	4	4	4	6	3	3	4	5	4	7
Aug.	85	4	4	4	5	3	3	4	5	4	5
Sept.	85	3	5	3	5	3	5	4	5	3	4
Oct.	85	3	4	3	5	2	3	4	5	3	5
Nov.	85	3	3	4	4	3	2	4	4	3	3
Dec.	85	3	3	3	3	4	4	3	4	2	1
Jan.	86	4	3	3	2	4	4	4	3	3	1
Feb.	86	3	2	3	1	3	5	3	2	3	-3
Mar.	86	3	2	3	2	2	3	3	4	2	-2
Apr.	86	4	4	3	4	4	4	4	6	2	1
May	86	2	4	3	5	2	2	3	6	2	4
June	86	2	5	3	6	2	3	3	6	2	6
July	86	2	5	1	5	2	3	3	5	-1	7
		Ten Year Annual Growth Rate, Percent									
1969-79		4	4	4	4	3	3	3	3	5	5

Where We Are

Growth Rates, %, Performing Indexes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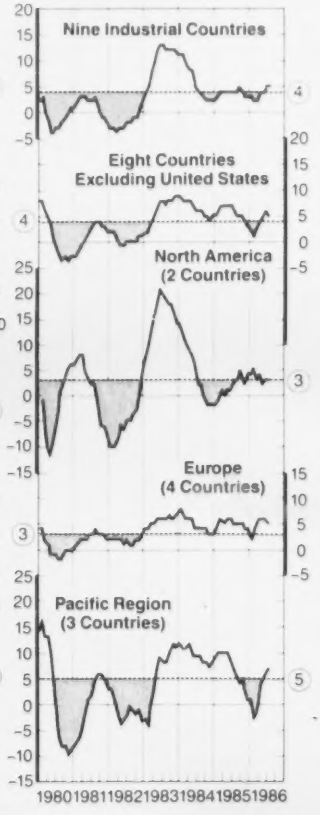
Pacific Region (3 Countries)
1980 1981 1982 1983 1984 1985 1986

Where We're Headed

Growth Rates, %, Leading Indexes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Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP.

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